

**REPORT OF THE AUDIT OF THE
CARTER COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Charles Wallace, Carter County Judge/Executive
Honorable Kevin McDavid, Carter County Sheriff
Members of the Carter County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Sheriff of Carter County, Kentucky, for the year ended December 31, 2003.

We engaged Morgan-Franklin, LLC to perform the audit of this statement. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated the Carter County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
CARTER COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**

**Morgan-Franklin, LLC
P.O. Box 428
513 Main Street
West Liberty, KY 41472**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CARTER COUNTY SHERIFF

For The Year Ended
December 31, 2003

Morgan-Franklin, LLC has completed the Carter County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees increased by \$6,939 from the prior year, resulting in excess fees of \$38,718 as of December 31, 2003. Revenues decreased by \$5,614 from the prior year and expenditures decreased by \$12,553.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Morgan-Franklin, LLC

**P.O. Box 428
513 Main Street
West Liberty, KY 41472**

The Honorable Charles Wallace, Carter County Judge/Executive
The Honorable Kevin McDavid, Carter County Sheriff
Members of the Carter County Fiscal Court

Independent Auditors' Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Carter County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2004, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable Charles Wallace, Carter County Judge/Executive
Honorable Kevin McDavid, Carter County Sheriff
Members of the Carter County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Carter County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

Audit fieldwork completed -
September 15, 2004

CARTER COUNTY
KEVIN MCDAVID, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

| | | |
|--|----|---------|
| Federal Grants | | |
| Corps of Engineer - Lake Patrol | \$ | 26,530 |
| State - Kentucky Law Enforcement Foundation Program Fund | | 11,832 |
| State Fees For Services: | | |
| Finance and Administration Cabinet | \$ | 23,738 |
| Sheriff Security Service | | 40,064 |
| Cabinet For Human Resources | | 1,377 |
| | | 65,179 |
| Circuit Court Clerk: | | |
| Fines and Fees Collected | | 1,300 |
| Fiscal Court | | 44,626 |
| County Clerk - Delinquent Taxes | | 2,279 |
| Commission On Taxes Collected | | 173,229 |
| Other Fees On Taxes Collected | | |
| Sheriff's Collection Fee - Advertised Taxes | | 38,492 |
| Fees Collected For Services: | | |
| Auto Inspections | \$ | 14,920 |
| Serving Papers | | 20,658 |
| Carrying Concealed Deadly Weapon Permits | | 3,255 |
| | | 38,833 |
| Other: | | |
| Occupational Fees | | 5,823 |
| Interest Earned | | 1,390 |
| Borrowed Money: | | |
| State Advancement | | 85,000 |
| Total Revenues | \$ | 494,513 |

The accompanying notes are an integral part of this financial statement.

CARTER COUNTY
 KEVIN MCDAVID, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

| | |
|--------------------|------------|
| Deputies' Salaries | \$ 108,366 |
| Part-Time Salaries | 16,160 |
| Other Salaries | 50,646 |
| Overtime | 4,245 |

Employee Benefits-

| | |
|----------------------------------|--------|
| Employer's Share Social Security | 18,047 |
| Employer's Share Retirement | 16,488 |
| Employer's Workman's Comp | 7,536 |
| Employer Paid Health Insurance | 26,052 |

Contracted Services-

| | |
|-------------|-----|
| Advertising | 352 |
|-------------|-----|

Materials and Supplies-

| | |
|-------------------------------|-------|
| Office Materials and Supplies | 4,539 |
| Uniforms | 3,580 |

Auto Expense-

| | |
|-------------------------|--------|
| Gasoline | 13,335 |
| Maintenance and Repairs | 7,035 |
| Vehicle Insurance | 5,000 |

Other Charges-

| | |
|--|-------|
| Dues | 518 |
| Postage | 1,172 |
| Fiscal Court Service Fees | 5,970 |
| Bond | 939 |
| Carrying Concealed Deadly Weapon Permits | 2,230 |
| Occupational Fees | 2,043 |
| Transporting Prisoners | 140 |
| Telephone Expense | 2,642 |
| Miscellaneous | 1,553 |

The accompanying notes are an integral part of this financial statement.

CARTER COUNTY
 KEVIN MCDAVID, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

| | | |
|--|-----------|-----------------|
| Capital Outlay- | | |
| Vehicles | \$ | 3,900 |
| Debt Service: | | |
| State Advancement | | <u>85,000</u> |
| Total Expenditures | \$ | <u>387,488</u> |
| Net Revenues | \$ | 107,025 |
| Less: Statutory Maximum | | <u>68,307</u> |
| Excess Fees Due County for 2004 | \$ | 38,718 |
| Less: Payments to County Treasurer - March 9, 2004 | 38,678 | |
| - March 9, 2004 | <u>40</u> | <u>38,718</u> |
| Balance Due Fiscal Court at Completion of Audit | \$ | <u><u>0</u></u> |

The accompanying notes are an integral part of this financial statement.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months of the year and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Grant

The office of the Carter County Sheriff received \$26,530 from the United States Army Corp of Engineers for providing lake patrol services at Grayson Lake.

Note 5. State Advancements

The office of the Carter County Sheriff received and repaid \$85,000 of state advancements. The advancements were approved by the fiscal court and proper bond was executed by the Sheriff.

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COMMENT AND RECOMMENDATION

CARTER COUNTY
KEVIN MCDAVID, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2003

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could have adversely affected the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff's Office obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash recounted and deposited by the Sheriff
- Reconciliation of reports to source documents and receipts and disbursements ledgers by the Sheriff
- All disbursement checks are to be signed by two people and one must be the Sheriff
- The Sheriff examines payroll checks prepared by an employee and distributes checks to employees
- All disbursements checks prepared by an employee are examined by the Sheriff for proper documentation
- The Sheriff mails disbursements
- The Sheriff or someone independent of the Sheriff's Office prepares bank reconciliations

Sheriff's Response:

None

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Morgan-Franklin, LLC

**P.O. Box 428
513 Main Street
West Liberty, KY 41472**

The Honorable Charles Wallace, Carter County Judge/Executive
The Honorable Kevin McDavid, Carter County Sheriff
Members of the Carter County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Carter County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated September 15, 2004. This was a special report on the County Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Carter County Sheriff's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Carter County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

Audit fieldwork completed -
September 15, 2004

